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LEGISLATIVE COMMENTARY

MEDICAL SAVINGS ACCOUNTS*

*Senator William V. Roth, Jr.** †*

Among the great freedoms that Americans cherish is the ability to make choices and decisions about how to provide and take care of their families. That is what the legislation that I introduced last year in the Senate is all about—giving families more control, and more options over their own health care, and their own money. I will soon re-introduce similar legislation this year.

It is important to understand that the medical savings account “option” places control of America’s health care back in the family, and it does so in significant ways that create the right incentives for health care. With a medical savings account you are able to choose your physician, your hospital, and your health care plan. No one knows your family’s health needs more than you do, and under this program that I am offering, it is you the consumer who will call the shots.

Under my Medical Savings Account legislation, (MSA) if you had an average family health policy that cost \$5,000 a year, you might have to pay the first \$250 of your own health costs, and then pay 20% of any health costs after that. Under my amendment, you could instead spend the same \$5,000 to buy a high deductible policy for \$2,500 and place

* This article is adapted from a prepared statement by Senator Roth on Medical Savings Accounts offered during the 103rd Congress.

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\$2,500 in your MSA. As long as your family spends less than \$2,500 for health costs that year, all of their health expenses will be paid with *pre-tax* dollars from your medical savings account provided by your employer. If they spend more, then your high deductible health insurance policy will begin paying your family's health costs once they exceed \$5,000.

After a few years of relatively low health expenses, excess funds in your medical savings account would be available to pay for unexpectedly high health costs, for long-term health insurance, or to make health insurance payments to extend coverage in the case of unemployment — often called COBRA payments. This last feature offers something that Americans have been crying out for years — “portability.” This means that many Americans no longer will be forced to stay in a job that they do not want, nor do they have to fear losing their insurance if they lose their job. They will most likely have the comfort of knowing that the money has been provided by their employer, free of tax, and is in their account where it can be used to pay for their insurance premiums, as well as their routine doctor visits.

What makes this legislation work is the fact that Americans will know that whatever they do not spend on health care expenses, they can keep for themselves. This also helps to improve the nation's poor savings rate — the worst in the industrialized world!

SUPPORT ORGANIZATIONS:

There is a large coalition supporting medical savings accounts, and my legislation. I would particularly like to note the strong support that we have had from the small business community and from agriculture organizations. I would like to just mention a few of them: the American Farm Bureau, the American Soybean Association, the National Association of Wheat Growers, the Small Business Council of America, the American Small Business Association, the National American Wholesale Grocers' Association, the U.S. Business and Industrial Council, the American Health Care Association, the Small Business Survival Committee, the Washington Policy Associates, the Independent Bakers Association, WAL-MART Stores, the Council for Affordable Health Insurance — which includes over forty insurance companies, many doctors and health providers, and the Business Coalition for Affordable Health Care — which represents over 900,000 American businesses, mostly small ones.

This is an impressive list of supporters from diverse areas and particu-

larly from farms and small businesses, this is an important alternative that the Congress ought to allow for families' health care.

PHYSICIAN CHOICE:

One of the things that we think makes medical savings accounts an attractive alternative for families, is that it gives patients the greatest flexibility with respect to their ability to choose their own health provider. Even without health care reform, people are finding their choice of health providers being limited, and bureaucracies are interfering with doctor-patient relationships. Under this measure, you can go to any doctor, nurse, or other health care provider of your choice without worrying about whether or not your insurance is going to cover the bill. The reason is simple, you will be using the money that your employer has placed into your medical savings account before paying taxes, to pay the doctor. If you are using your own money, then of course you are free to go to whatever health provider you want.

Of course, not only will taxpayers be allowed to go to the doctor of their choice, but the hospital, the nurse, the midwife, the chiropractor or the optometrist of their choice as well. In fact, it is worth pointing out that as long as the medical treatment is deductible under section 213 of the tax code, then you can use the money in your medical savings account to pay for the visit to your health provider. This will, in some cases allow people to get the eyeglasses, for example, that they need. Under normal health policy the policy may not cover a visit to the optometrist, but because it is deductible under section 213, if you have a medical savings account then you will be able to pay for that visit. For working poor Americans, I believe this will be an especially helpful provision. That is because they will have the money to pay for the health care bill in their medical savings account, and in addition, they will not have to meet a deductible or a co-payment problem that may prove prohibitively expensive for some workers.

So to summarize, one of the great things about this proposal is that no government bureaucrat will get in the way of you and your doctor, or you and your hospital, or you and your nurse. There is no "health junta" in my legislation. No one needs to approve whether you spend the money on a second opinion or not, or get that extra test done. There is no "standard plan" that lays out a one-size-fits-all government system for you to leap through. The money is yours, and so you are the one in control. But, because the money is yours, and because you will get to keep it if you do

not waste it, I believe taxpayers will make smarter, more informed and better decisions about when, how and where to seek their health advice.

LONG-TERM CARE AND COBRA PAYMENTS:

Two of the best provisions of this legislation are the ones that add flexibility for consumers to purchase insurance in the event they lose their job, or if they want to buy long-term care insurance. Under the bill, taxpayers will be able to use money in their medical savings account to make COBRA payments to continue their catastrophic health insurance policy — in the event that their employer goes out of business or if they are let go. This “portability” feature is something that is high on the list of most Americans in the context of health reform, and I simply want to emphasize how important it is to this measure.

Second, many Americans know that if they are faced with a serious illness for a long period of time, they will need long-term care insurance. Those who receive their care from nursing homes understand exactly what I am talking about. Often, people’s regular insurance does not cover this kind of expense, and a long-term care insurance policy becomes essential. Government cannot afford to pay the costs of this kind of benefit, but it can encourage it through the use of medical savings accounts. I think that is exactly the message we have to send to the public, and encourage them to purchase the policy that they need.

SELF-EMPLOYED OPTION:

I want to emphasize again the unique nature of this measure in that it would allow self-employed individuals to purchase medical savings accounts. This will mean that farmers and small businesses will be able to buy health insurance and fund a medical savings account to provide for their own health needs.

COST CONTAINMENT:

Beyond offering patients choice, medical savings accounts will help control health care costs. The reason why is simple: it will encourage consumers of medical care to shop wisely, reject unnecessary treatment and conserve scarce medical resources because it is the consumer, not some third party such as an insurance company or the government, who will be paying the bills.

A recent study by Stan Liebowitz, of the University of Texas Management School, shows that the major culprit in health care inflation is third-

party payment, that system which removes the patient as a major participant in financial and medical decision making. Liebowitz's recommendation is straightforward: The patient must once again be made the central actor in the medical marketplace. That is what my MSA legislation is all about.

In fact, we already know about the success of medical savings accounts because they already exist. Many businesses and their employees have learned that they can offer these plans today. It is done by offering a high deductible health insurance policy to employees, and depositing the savings from buying these low cost plans into the employees' bank account.

The problem, however, with the current medical savings accounts in effect is that employees are treated worse under the tax laws by electing this self-insurance option for their health care coverage. At the end of each year, the employee has to include the full amount of the money deposited into his or her medical savings account in taxable income. That is a grossly unfair result. Since most taxpayers cannot deduct their health service costs because they do not exceed the seven-and-a-half percent of adjusted gross income test, this often results in a tax penalty of between fifteen and over forty percent, after taking into account state taxes.

Still, many taxpayers are electing on their own to choose these medical savings accounts rather than an ordinary health insurance plan from their employers. The reason is simple, they know that they have the catastrophic insurance to cover their family in the event of an emergency, and they have the money provided by their employer to pay for routine visits to the doctor for their family. These same taxpayers know that if they are good consumers, learn about competition in the health care industry and shop wisely, then they will get to keep the savings from being a prudent consumer. Even with the dramatic tax penalty now imposed on these health accounts, taxpayers all over the country are choosing this method to pay for their health care.

CASE STUDIES:

On August 15th, 1994, NBC News did a trenchant story on the Forbes company's solution to health care reform. Their solution is medical savings accounts, and Forbes says that it "not only works, but ought to be a model for companies all over the country," according to NBC News. Forbes has 425 employees and an annual health care budget of about two million dollars.

Edward R. Levine, the respected chief economics correspondent, did

the story, and started by pointing out that profits at the successful publishing firm had been suffering from runaway health-care costs — recalling that insurance costs had been going up thirty percent in 1990.

Malcolm Forbes explained that the reason for the runaway health costs was that “everyone felt somebody else was paying for it, so there was no direct link between a person’s behavior and what they got to keep and what they got to spend. So it was totally out of control.”

Then, three years ago, Forbes came up with a plan, offering employees personal profit to cut health insurance costs — in other words, medical savings accounts! Under the new Forbes plan, there is a direct connection between what an employee does, and what he or she gets to keep in his or her pocket.

Under the plan, Forbes sets aside \$1,300 for each employee. It is a year end bonus if the worker files no insurance claims. When a worker does file a claim, the amount is deducted from the worker’s bonus.

In interviews with workers at Forbes, it is clear that they are pleased with the new system. One worker, Maria Rosa Cartalano, was able to get her full bonus last year. She said she will not get it all this year because she suffers from allergies and on bad days she has to get her shots. This worker seems to show that although the medical savings account is an incentive to utilize less health care expenses, it does not prevent patients from going to the doctor when they really need to — in this case for allergy shots.

The Forbes plan even helps to encourage workers to watch their own health, because it is financially better for them to do so. One example is Rene Dawson, who says she is watching her weight, her calories, her fat intake and her cholesterol levels. Forbes also encourages workers to use the gym, three hours a week on company time, and to think twice about unnecessary and costly medical tests. One worker, Lawrence Menard, commented that he and his wife will now ask the doctor if they really need to give their eleven-year-old and nine-year-old children blood tests.

So, what’s the bottom line at Forbes? It appears that workers are happy, and receive the health care they need, while the company has saved big dollars. Because of the drop in claims, the Cigna Insurance Company reduced premiums and the company saved about \$426,000, more than covering the \$300,000 in bonuses the company paid out. Of 450 employees, 150—one in three—got a bonus last year. One hundred of those got the full amount.

Levine finished his story by saying that Forbes has tried without success

to get legislation passed by Congress, despite the fact that everyone at Forbes agrees it is a plan only with winners. My proposal is the Senate's chance to make this legislation a success.

In 1993, the United Mine Workers had a first dollar coverage health plan. This year, they accepted a plan with a \$1,000 deductible, in return for a \$1,000 bonus at the beginning of the year. Employees get to keep whatever they do not spend, and must pay taxes on the full \$1,000 whether they use it on health expenses or not.

At Dominion Resources, the parent company of Virginia Power, there are 200 employees, with an annual health care budget of \$438,000. Under the Dominion plan, a "cafeteria plan" is combined with medical savings accounts. Under the plan, an employee can pick from a number of benefits, including health insurance in the traditional form, or as a catastrophic health policy. Dominion pays \$1,100 of the health insurance for each employee that elects coverage, and also gives each employee "flex dollars."

The employee can use the "flex dollars" to buy health and other fringe benefits under a cafeteria plan. Each employee gets \$1,200 flex dollars, and then can be rewarded with extra flex dollars for maintaining a healthy lifestyle, e.g. low blood pressure, not smoking and wearing seat belts.

Employees can place their "flex dollars" in a medical savings account and can spend the money on anything they want, including but not limited to medical care. These contributions are taxed, and the employees can elect to receive any unspent money in the account. Dominion has achieved significant health care savings over the last few years, and in fact shares fifty percent of its health care savings each year with employees that have the lowest claim costs. In 1991, Dominion's more healthy employees received an \$800 bonus and in 1992, a \$456 bonus.

Dominion's health expenses have come in under budget for the last two years. The company saved \$136,000 in health care costs (about thirty one percent of annual budget) in 1992, and another thirty percent in 1993. Remarkably, Dominion's employees have not had a premium increase since 1990.

In my own home state of Delaware, the DuPont Corporation offers a similar option to their employees. Under its so-called "C Plan" the company offers a catastrophic health plan option with a \$1,000 annual deductible. For expenses from \$1,000 to \$4,000 the company pays 60% of service costs, and for health costs over \$4,000 the company pays 100% of service costs.

Last year was the first year this option was offered, and about five percent of the employees have joined the plan already. The company pays a bonus to employees equal to about forty-five dollars a month for each month they are enrolled in the "C Plan." Although the cost increase is not clear, since this is the first year of the plan, the company informs me that the sense is that it has held down costs this year (1994), and premiums will only increase about five percent next year — a very small amount based on recent year's increases.

Another success has been demonstrated by the Golden Rule Insurance Company. Under the Golden Rule plan, an individual employee can choose a traditional policy with a \$500 deductible and a twenty percent co-payment, up to a maximum of \$1,000. Alternatively, they can choose a high deductible policy and have \$1,000 deposited in twelve equal installments into their medical savings account. The deductible amount is \$2,000.

In 1993, 80% chose the medical savings account, and in 1994 the number rose to 90%. In testimony before the Finance Committee, executives from the Golden Rule Insurance Company showed that in only eight months after initiating an MSA program the average employee had savings of \$602, and total savings for the company were \$468,000. Golden Rule stated that employees have been able to save because they are shopping around for medical care. In fact, one employee negotiated close to \$4,000 off her hospital stay before she entered. At the hearing one of the witnesses stated that he is now paying only \$7.99 for prescription drugs compared to the \$34.25 he was charged when insurance paid the bills.

Since 1982, Quaker Oats has also had a high-deductible policy and paid an annual \$300 into the personal health accounts of employees, who get to keep any unspent balance. The result for this company over the past decade has been health care costs that have grown at a fraction of the nation's average, that is, at 6.3 % per year, while the rest of the nation has experienced double digit rates.

The Council for Affordable Health Insurance, located in Northern Virginia, is a national trade and lobbying group that advocates medical savings accounts, so they decided to give MSAs a try in 1993. The Council contributes \$1,000 to each employee's medical savings account and paid \$1,438 per employee in 1993 for a catastrophic health policy with a \$1,000 annual deductible. Employees are allowed to cash out their balance at the end of the year, or carry it over, but they must pay the taxes.

Premiums for the catastrophic insurance policy climbed only 4.6% in

1994, compared to the national average for premium increases of 5.4%. At the end of 1993, employees received, on average, a \$400 cash distribution from their medical savings accounts. Employees spent about \$400 on average out of their medical savings accounts in 1993.

WAL-MART, the nation's largest retailer, based in Arkansas, has contacted us to say they are "eagerly awaiting the opportunity to implement medical savings accounts" for their 230,000 employees as soon as Congress levels the playing field and gives them the same tax treatment as other health insurance.

Regarding cost containment, it seems clear to me that medical savings accounts offer a viable alternative to third party payments from insurance companies or the government. It also seems logical that most Americans are over-insured under traditional insurance policies—they use health insurance to pay for non-risky medicine, like diagnostic tests and routine check-ups. It would be better if Congress would remove the tax penalty on self-insurance, allow Americans to streamline the system and keep the savings. Savings from administrative costs alone on small medical bills could be significant.

In fact, according to a computer model constructed by the respected actuarial firm of Milliman and Robertson, the U.S. health care system would save almost \$588 billion over five years by using medical savings accounts. And in another study for the CATO Institute, medical savings accounts would lower the nation's annual health care bill by \$300 billion and reduce administrative costs alone by \$33 billion.

MEDICAL EXPENSES:

In fact, workers can use the money to pay for braces or eye care for their children, which often are not covered in a normal health care policy. These benefits make this proposal attractive to young workers who represent a disproportionate number of our current uninsured.

STATE LEGISLATION:

Already, seven states have passed legislation enacting tax-favored medical savings accounts: Arizona, Colorado, Idaho, Illinois, Michigan, Mississippi, and Missouri. Dozens of other states are moving quickly to pass similar legislation. Jersey City has implemented them as an alternative for their city employees, and the State of Ohio is moving to implement a test program next year for state employees. Clearly, medical savings accounts offer Americans a "choice" about their health care that should be funda-

mental in a country built on free market principles. It is the federal government that must now move ahead with this new idea.

I want to point out a few other things about efforts at the local levels of government to use medical savings accounts to reform health care. Three governors have endorsed my proposal, pointing out how important it is that we pass their reform at the federal level. Kirk Fordice, from Mississippi writes that he signed legislation earlier this (1994) year to establish medical savings accounts in that state. The state law provides tax exemptions for medical savings accounts spent on health care, and he states that a federal exemption would strengthen this incentive, and give employers a viable option for providing cost effective health care coverage for their employees. He also points out that because medical savings accounts preserve and encourage the doctor/patient relationship, they are far more likely to produce wise health care choices than an enhanced bureaucracy.

Another governor, John Engler from Michigan, writes that he signed legislation on July 13, 1994, "making Michigan the first large industrial state to encourage the creation and use of medical savings accounts." He points out that "the injection of the consumer in the purchase of health care will work to make the individual much more sensitive to the true cost of care." He makes a point that I think is very important in understanding this debate. Under current tax law, we allow a federal tax deduction to a company that pays wages into a "flexible spending account," sometimes called a cafeteria plan. The taxpayers choose how much money to place into these accounts and they are allowed to exclude that money from their incomes. Up to this point, it sounds a lot like a medical savings account. So, what is the difference? Well, under these flexible spending accounts, whatever you do not use by the end of the year, you lose—it simply reverts back to your employer.

The effect of this is, as Governor Engler points out, a perverse incentive to consumers to rush to spend their savings at the end of the year so that they do not lose their money — they go to the dentist, get new eyeglasses and in general over-utilize and over-spend on health care. Medical savings accounts change all of this, because consumers are able to roll-over and accumulate their hard earned money in these accounts year after year.

Whatever they do not spend, they know they can save for future medical expenses, or for long-term care. It puts an end to this perverse incentive that Governor Engler points out.

Governor Edgar in Illinois also advocates that we adopt this amend-

ment. Governor Edgar points out that Illinois will soon have a new law that will allow employees and employers to contribute up to \$3,000 to a medical savings account, from which withdrawals for health costs can be made free of Illinois income tax. He says that the Illinois General Assembly agreed unanimously to this proposal, and he agrees that the "accounts just make good sense."

In addition to the seven states that have actually enacted medical savings account legislation, there are seven more that have asked the federal government to enact medical savings accounts. These resolutions at the state level are intended to encourage us to enact just the kind of legislation that is before you now. Because I feel it is important for Members to know what their states have asked them to do, I would like to read off this list of states, in case some Members may not have been informed of their own States' legislation. Those states enacting resolutions supporting medical savings accounts, and therefore legislation like mine, are: Arizona, Colorado, Montana, South Carolina, Texas, Utah, and Virginia.

There are also quite a number of other states that have taken steps toward enacting medical savings accounts. In Oklahoma, the Oklahoma Family Choice Health Plan was proposed by Governor Walters and that plan is under study. That plan, includes a form of medical savings accounts, and even forces most individuals by 1995 to use them to buy insurance and pay doctor's bills. Under a study by the respected KPMG Peat Marwick, it was estimated that health costs would be reduced by one percent in 1997. In 1998 and beyond, savings are "expected to be even greater."

In Minnesota, New Jersey and South Carolina, the governors have all signed legislation to enact in-depth studies of medical savings accounts. Mississippi has already concluded their study, and were so pleased by the results that they enacted medical savings account legislation!

Other states have pending legislation, some of which have passed through some part of the legislative process. These states include: California, Kansas, New Mexico, New York and Pennsylvania. Of these, the Kansas and New Mexico legislation have moved the furthest.

ARGUMENTS AND ANSWERS:

As to the argument that MSAs are not complete health reform, many have criticized medical savings accounts because they feel that these accounts will not solve our nation's health care problems. I agree! I do not believe anyone is going to claim that taken alone, medical savings ac-

counts are enough to reform everything that is wrong, but I do believe that they are a step in the right direction.

In fact, I think they may be one of the most fundamental steps to real reform. The reason is that it completely changes the way most Americans today pay for their health costs. It removes the disincentives in the current system because it takes the decision for health services away from a third party (insurance company or government) and it places the decision back where it belongs — with the family. Health care decisions should not be so far removed from the family so as to result in the over-utilization of health care. The great thing about this idea is that the economic decision will be in the right place. The family will now have to decide whether a dollar spent on health care is more important than a dollar spent on some other essential. Many in Congress seem to believe that any expenditure on health care is more important than any other expenditure. But that clearly is not true.

For example, everyone has a small probability of having a brain tumor—maybe one in 3,000. With a brain scan through magnetic resonance imaging, or MRI, doctors might be able to identify it and operate. So if my insurance covered an annual MRI, I would probably have one, and so would everyone else. But if 250 million Americans did that, at a cost of \$1,000 per scan, we would increase the nation's health care by almost one-third! Clearly, a dollar spent on an MRI for every American is not as important as other national needs.

Now, if you place that decision with the family, and not with an insurance company or the government, then the chances are that the family would save the money and spend it on something more important, like housing, or heating, or transportation. It is time to let the family decide whether they need all of the health care their insurance company pays for, or if they could better use it themselves.

As to the argument that consumers are not smart enough, opponents of medical savings accounts often argue that individuals are not smart enough, or sufficiently well informed to make the routine medical decisions that would be necessary when using your medical savings account. To some extent, Americans today do not know what they should about their health costs, but that is the worst excuse to oppose medical savings accounts.

Consumer ignorance of health care is neither desirable or inevitable. In fact, if this nation is ever likely to control its out-of-control health spending, it must make Americans better consumers. As the Senior Senator

from West Virginia put it so well the other day, I thought health care reform was about controlling costs. Well, if you do not make the American consumer conscious of costs, then I do not understand how you will ever manage to control them.

Under our current system, consumers have little need or incentive to become informed about the options available or the cost of treatment. The reason is clear: they are insulated from these problems by the current payment system. In fact, under some proposals for health care reform, I think we would be moving in the wrong direction because consumers would be moved even further from becoming knowledgeable about their own health care, and instead the government or insurance would make all the decisions for them. "Bureaucratizing" our health care system will not be good economics or good health care. Reliance on third-party payments are likely to result in higher, not lower, health care expenditures by this nation because uninformed patients are less likely to follow their prescriptions, make important follow-up visits, or follow a treatment plan.

Medical savings accounts are not the final solution, but I am confident that they will create a whole new market for medical information and patient education. Coupled with dramatic new economic incentives to cut costs and improve your return on your health care dollar, I believe it will move us in the right direction.

As to the argument that MSAs will create adverse selection: Opponents of medical savings accounts also argue that they will create adverse selection among health plans because relatively healthy persons will choose the catastrophic plans and leave only the sicker people with traditional health plans. In addition, they argue, as the *New York Times* did in an editorial, that when people are healthy they will choose medical savings accounts, but when they become sick they will change health plans to instead buy a more traditional plan with a low deductible—thus driving up premiums for these plans.

I might agree with my opponents if we were talking about "individually written risks," whereby insurance companies are allowed to go into a market and pick and choose the workers that they want to insure, or if there were not other significant changes to our health care system. Clearly, under any health insurance reform package now being considered there will be substantial changes. If there is *any* adverse selection under my proposal, it will be very slight because of a number of underlying changes to our health care system.

Some of those changes include: eliminating pre-existing conditions, ad-

ding some form of community rating, open enrollment on an annual basis only, and risk adjustment pools. I believe it is better that we trust those that are familiar with evaluating risks and make the changes that are necessary to improve our health care system, as well as make medical savings accounts work for the average American.

In addition, our opponent's logic could be applied to HMOs versus indemnity, or fee for service plans. HMOs feature very little out of pocket costs and very comprehensive benefits, so it might be supposed that they would attract a sicker population than traditional plans with deductibles of \$250 to \$500. In point of fact, HMOs do just the opposite: they attract a much healthier population than fee for service plans do. In fact, most of the apparent "savings" of HMOs can be attributed to the healthier enrollment base they attract. This is primarily due to the fact that in fee for service plans, people are more free to select their own physicians, and that is a priority consideration for people who are more likely to use medical services. They are much more concerned with the continuity of their care than they are about deductibles. It is just as likely that medical savings accounts and catastrophic insurance policies will attract a much sicker population than either HMOs or fee for service PPOs because the medical savings accounts would place few, if any restrictions on an individual's choice of provider.

As you can see from the HMO example, adverse selection is precisely the kind of behavioral effect that is impossible to predict in advance. Ultimately, only the market place can say how people will react to a given set of alternatives. That is part of the reason so much attention is being devoted to the idea of "risk adjustment mechanisms." It is understood that there will likely be adverse selection even if the choices are confined to several different managed care programs. Herculean efforts are being put into the development of these risk adjustment mechanisms to correct for the competitive effects of adverse selection. Medical savings accounts are no more or less likely to contribute to adverse selection than any other type of health program.

We should also consider the pure economics of catastrophic insurance policies. It is a fact that comprehensive plans cost more than catastrophic plans. The consumer is paying for the availability of certain benefits to be paid by the insurance company instead of paying for those benefits out of his or her own pocket or the medical savings account. Many people may continue to prefer to pay extra for this service. However, many people will find it attractive to remove the third party from the transaction, and save the money that would otherwise go to third party overhead. We

know the administrative costs of having an insurer process routine, low-cost claims add significantly to the cost of coverage. Medical savings accounts simply provide an alternative for those consumers who would prefer to save these overhead dollars. The savings in medical savings accounts are not caused by a "healthier" risk pool. The savings are caused by reduced administration costs and the fact that about two-thirds of *all* health spending is on medical bills of \$5,000 or less.

As to the argument concerning the cost of premiums, opponents of medical savings accounts argue that since much of our nation's health care goods and services are consumed above many catastrophic policy's deductible limits, by a small percentage of the population, there will be little savings by going to a high deductible plan; since insurance companies will have to charge almost as much for those high deductible plans. As a result, the gap between the amount saved in a medical savings account and the high deductible limit on the catastrophic health policy will be large. They argue that this will result in many defaulting on their health care bills, and a continuation of the uncompensated care problems we face now, and more cost shifting by providers.

I agree that after many of the reforms that are characterized as "health care reform" are enacted, it will not be as beneficial for some to offer medical savings accounts as it is today. But these accounts will still offer a significant reform opportunity, and both private and government economists and actuaries have agreed that they will be marketable and useful.

Let me start by giving you an example that I was given by the Congressional Research Service (CRS) and a likely "post reform" market. CRS has generally done the work on estimating medical savings accounts, rather than the Congressional Budget Office (CBO), so that is why I will use their figures. I asked them how much a person might be able to put into a medical savings account if he or she paid about \$6,000 for their traditional policy today, and instead bought a high deductible policy with a \$5,000 deductible. The answer was: about \$2,200, which could be used under my amendment to fund a medical savings account. Now, under this example, it would take a couple of years of relatively low health costs in order to fund your medical savings account to a point where it covered most of your deductible, but it certainly would be something that many families would like to have the chance to do, even with these figures.

These were the worst figures that I received back from economists and actuaries, and they were from the more skeptic government people. Still, they are workable figures, and it just is not true that the numbers for the

funding of these accounts do not add up. These economists generally told me that on very high deductible policies, a person might expect to save about twenty-five to thirty-five percent of premium over the cost of a traditional policy. This is a significant amount that would then be used to fund your medical savings account, and used to pay for routine and less expensive medical costs.

Private actuaries and economists have been more optimistic about the savings on these high deductible plans, telling me that up to about fifty percent of your premium costs could be saved by using a high deductible health policy. The example they provided to me is much more beneficial and would clearly be chosen by a lot of taxpayers.

If you start with a typical family premium of \$4,500 and a \$500 deductible with a twenty percent co-payment, capped at \$1,000, the family would have out-of-pocket costs of \$1,500 annually (\$500 deductible, plus \$1,000 co-payment).

Under my legislation, if they instead bought a policy with a \$3,200 deductible, the premium would cost \$2,300 (for a savings of \$2,200 from the traditional policy). This \$2,200 would be deposited in a medical savings account to offset the deductible on the health insurance policy (\$3,200). Thus, this family would continue to be responsible for \$1,000 in expenses, equal to the difference between the \$2,200 in the medical savings account, and the \$3,200 deductible. Still, this outcome is better than the \$1,500 that the family is responsible for under the old policy by about \$500.

After the second year, and another \$2,200 deposit to the medical savings account, in most cases the family will have more than enough to cover the entire deductible amount. In addition, in later years, after saving substantially more in their medical savings account, the family could use the money to pay for long-term health insurance or to make COBRA payments in the event the worker should become unemployed.

Clearly, strong efforts have been made to defeat any medical savings account legislation by those who have a vested interest in the current system. The real winners when my proposal passes will be hundreds of thousands of consumers who will have more control over their own lives and the health care they need.